



**Department of Insurance**  
**State of Arizona**  
**Captive Insurance Division**  
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**State of Arizona**  
**Captive Insurance Summary**

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**Highlights:**

1. Professional, accessible and flexible Captive Insurance Division
2. No Arizona income or premium taxes
3. Mandatory 30 day application approval time-frame.
4. Allows non-profits & reciprocals as well as mutuals & stock for pure, group, association, risk retention groups, agency & protected cell captive programs
5. Ease in redomesticating to Arizona.
6. Pro-business environment.

**I. Supervisory Jurisdiction:**

Arizona Department of Insurance, Captive Insurance Division

**II. Law:**

A.R.S. §20-1098 "etc."

**I. Requirements To Do Business In Arizona:**

1. Obtain license from the Director of Insurance to conduct insurance business.
2. Hold at least one board of directors' meeting each year in Arizona.
3. Maintain its principal place of business in Arizona.
4. Appoint a resident statutory agent to accept service of process and to otherwise act on its behalf in the State. Must have at least three incorporators, one of whom must be an Arizona resident.
5. A captive insurer formed as a reciprocal insurer shall have at least one member of the subscribers' advisory committee who is an Arizona resident.

**I. License Application Requirements:**

Meet with Captive Insurance Administrator to discuss proposed Business Plan and determine if the plan is feasible and fits within the statutory parameters for formation of a captive.

Before receiving a license, a prospective captive insurer shall file with the Director of Insurance a certified copy of its Articles of Incorporation, Bylaws, or other organizational document, a statement under oath of its President and Secretary showing its financial condition and any other statement or document required by the Director of Insurance.

In addition, each prospective captive insurer shall file with the Director of Insurance evidence of all of the following:

1. Captive Insurance Company Application (if a Protected Cell Captive Insurer, a supplemental application must be completed for each cell)
2. Biographical Affidavits
3. The amount of liquidity of its assets relative to the risks to be assumed.
4. The adequacy of the expertise, experience and character of the person or persons who will manage the prospective captive insurer. Management Firm must complete Profile Form.
5. The overall soundness of its plan of operation.

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1. The adequacy of the loss prevention programs of its parent or member organizations.
  6. The establishment of business relationships with any necessary accountants, banks, attorneys and other professionals.
  7. The ability of the captive insurer's affiliates or group members to pay claims to third parties if the prospective captive insurer is unable to pay those claims.
  8. Other factors deemed relevant by the Director of Insurance in ascertaining whether the proposed captive insurer will be able to meet its obligations.
  9. A captive insurer must notify the Director of Insurance within thirty days of any material change in the information.

**V. Capitalization:**

The Director of Insurance shall not issue a license to a prospective captive insurer unless it possesses and thereafter maintains **MINIMUM** unimpaired paid-in capital and surplus as follows:

1. A pure captive insurer, two hundred fifty thousand dollars (\$250,000).
2. A group captive insurer (including Risk Retention Groups), five hundred thousand dollars (\$500,000).
3. In the case of a captive insurer that transacts only reinsurance, one-half of the applicable amount prescribed in paragraph 1 or 2 of this subsection. Does not apply to Risk Retention Groups.
4. An agency captive insurer, five hundred thousand dollars (\$500,000).
5. A protected cell captive insurer, one million dollars (\$1,000,000).
6. A reciprocal captive insurer, five hundred thousand dollars (\$500,000) in free surplus.
7. All minimum capital and surplus requirements shall be in the form of cash or an irrevocable and unconditional Letter of Credit. The Letter of Credit shall contain an evergreen clause, and is payable to, filed with and held by the Director of Insurance.
8. The Director may prescribe additional capital and surplus requirements based on the type, volume and nature of insurance.

**VI. Fees:**

1. Charter Document: \$ 75.00
2. Examiners' Revolving Fund: \$ 100.00
3. Initial examination: \$ Varies by captive
4. License (First Year): \$ 1000.00
5. Annual renewal: \$ 5500.00
6. Ongoing examinations: \$ Varies by captive

**VII. Taxes:**

None

**VIII. Permitted Business:**

1. A pure captive insurance company may not insure any risks other than those of its parent and affiliated companies or controlled unaffiliated businesses.
2. A group captive insurance company may insure only the risks of the group members and their affiliates.
3. A captive insurer shall not engage in the direct writing of any of the following types of insurance business (**reinsurance is allowed**):
  - A. Hospital service corporations, medical service corporations, dental service corporations, optometric service corporations or hospital, medical, dental and optometric service corporations (HMO's) as defined in section 20-822.
  - B. Health care services organizations as defined in section 20-1051.
  - C. Prepaid dental plan organizations as defined in section 20-1001.
  - D. Prepaid legal insurance contracts as defined in section 20-1097.
  - E. Business of title insurance as defined in section 20-1562.
  - F. Personal motor vehicle or homeowner's insurance coverage or any component of that insurance coverage.
  - G. Commercial motor vehicle insurance policies unless the insured affiliate qualifies as a self-insurer pursuant to section 28-4007 or substantially similar self-insurance requirements of another state.
  - H. Mortgage guaranty insurance as defined in section 20-1541.

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- I. Workers' compensation or employers' liability insurance policies; except a pure captive insurer may provide direct coverage of workers' compensation or employers' liability insurance in connection with a self-insurance program that is qualified as a self-insurance program under an applicable state or federal law, as determined by the agency or other entity that has jurisdiction over the self-insurance program.
  4. A captive insurer that writes life insurance or disability health insurance shall comply with all applicable state and federal laws.

**IX. Reinsurance Provisions:**

1. Captive insurer shall not accept or cede reinsurance except as provided in section 20-1098.09.
2. A captive insurer may provide reinsurance on risks ceded by another insurer.
3. A captive insurer may take credit for reserves on risks or portions of risks ceded to a reinsurer that is in compliance with sections 20-261 and 20-261.01 through 20-261.04. Prior approval is required to take credit for reserves on risks or portions of risks ceded to a reinsurer if the reinsurer is not in compliance with sections 20-261 and 20-261.01 through 20-261.04.

**X. Investment Restrictions:**

1. A group captive insurer, an agency captive insurer and a protected cell captive insurer, shall comply with the investment requirements prescribed in Chapter 3, Article 2 of this Title.
2. A pure captive insurer is not subject to restrictions on allowable investments, except that the Director of Insurance may prohibit or limit any investment that threatens the solvency or liquidity of the pure captive insurer.
3. Only a pure captive insurer may make loans to its parent and affiliates with prior approval of the Director.

**XI. Local Office Requirements.**

Captive insurer shall engage a manager who is a resident of this State. The captive manager shall maintain the books and records of the captive insurer's business, transactions and affairs at a location that is in this State and that is accessible to the Director of Insurance.

**XII. Certification of Reserves:**

Loss reserves and loss expense reserves should be certified by a Fellow of the Casualty Actuarial Society, a member in good standing of the American Academy of Actuaries, or an individual who has demonstrated his competence in loss reserve evaluation and has been approved by the Director of Insurance..

**XIII. Financial Reporting Requirements:**

1. Captive insurers, except Risk Retention Groups, will file an Annual Statement on an Arizona Captive Insurance Company blank provided by the Director of Insurance. Risk Retention Groups are required to use the National Association of Insurance Commissioners Annual Statement blank and to follow all National Association of Insurance Commissioners Annual Statement instructions.
2. Not later than ninety days after the end of the captive insurer's fiscal year, the captive insurer shall submit to the Director of Insurance a report of its financial condition that is verified by oath of two of its executive officers, and that is supplemented by additional information as required by the Director of Insurance. Except as provided in section 20-1098.03, a captive insurer may submit a report that uses generally accepted accounting principles unless the Director of Insurance requires the captive insurer to use statutory accounting principles with any useful or necessary modifications or adaptations of those principles required by the Director of Insurance for the type of insurance and kinds of insurers to be reported on.
3. The captive insurer's financial statements shall be audited annually by an independent certified public accountant unless the Director of Insurance determines that an audit is not necessary.
4. Protected Cell Captive Insurers, at the time it files its annual report, shall also file with the Department:
  - A. An accounting statement, in the form the Director requires, detailing the financial experience of each protected cell.
  - B. Any other financial reports prescribed by the Director.

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**XIV. Rating Organizations:**

A captive is not required to join a rating organization.

**XV. Web Site:**

**[www.state.az.us/id](http://www.state.az.us/id)**